



# **BC Oil & Gas Commission**

2007/08 ANNUAL  
SERVICE PLAN REPORT

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## MESSAGE FROM THE CHAIR TO THE MINISTER OF ENERGY, MINES AND PETROLEUM RESOURCES

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Dear Honourable Minister Neufeld:

I am pleased to present the Oil and Gas Commission Annual Service Plan Report for 2007/2008.

Building on the solid foundation set in previous fiscal years, the Commission continued an aggressive agenda aimed at improving access, outreach, process and transparency. Guided by a team of professional and dedicated staff, the goals as set out in the service plan became reality, achieving ever higher oil and gas sector standards in the interest of British Columbians.

The province has become an interest point among sector investors attracted by the realization of new and substantial natural gas resources. In preparing to manage additional changes in the operating environment, including those for the anticipated increased activity levels, the Commission substantially shifted resources and has made significant strides to prepare for future sector changes.

Supportive client service remains a focus; adding quality to decisions in support of operations and communities in which sector activity takes place. Consultation Process Agreements, signed with most Treaty 8 First Nations partners in the previous year continue in the implementation stage. As well, memorandums of understanding with partner agencies have improved certainty in delivery of service.

Of particular note is the effort by the Commission and the Mediation and Arbitration Board to parallel facilitation services to parties needing assistance. This has been well received by communities, being viewed as a positive step in fostering relationships among affected parties.

This past spring the Commission delivered the British Columbia Flaring, Incinerating and Venting Reduction Guideline accomplishing is a significant first step in supporting goals of the new provincial Energy Plan to reduce, and eventually eliminate, routine flaring.



Recruitment and retention remains a priority for the Commission, especially in the dynamic labour market of northern British Columbia. A number of human resource initiatives support the organization in attracting and maintaining employees, including the implementation of health and wellness programs, a Work Environment Survey, executive and employee coaching, Intranet redevelopment and leadership development to support stronger performance in these areas in the future.

Largely, the Commission realized strong performance in 2007/08, achieving 24 of the 26 strategies outlined in the service plan and exceeding targets on key performance measures. We are committed to continuous improvement of our key performance measures and their results.

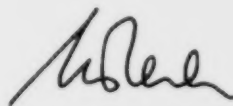
Financially, the commission had budgeted for a \$1.9 million loss on a non-consolidated basis. Actual Net Loss was \$140,000 on \$26.3 million of revenue, essentially a break-even position. Forecasted revenue had been \$28.9 million, but actual expenses were also under budget. When financial results of the Orphan Sites Reclamation Fund were consolidated, Net Income totalled \$701,000. As a result of conservative forecasting in prior years, the Commission had an accumulated \$6.9 million in cash at March 31, 2008, and had Net Assets of \$15.4 million.

This, the 2007/08 Service Plan Report, was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the Oil and Gas Commission for the 12 months ended March 31, 2008, in relation to the service plan we published in February 2007. The measures presented are consistent with the Oil and Gas Commission's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

I am responsible for ensuring that internal controls are in place for in turn ensuring that performance information is measured and reported accurately and in a timely fashion.


All significant decisions, events and identified risks as of June 19, 2008, have been considered in the preparation of this report. As well, the report contains estimates and interpretive information that represent the best judgement of management. Any changes in mandate direction, goals, strategies, measures or targets made since the February 2007 service plan was released are identified in the report, as are any significant limitations in the reliability of data.



Greg Reimer, Board Chair  
OIL AND GAS COMMISSION

## CORPORATE GOVERNANCE

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The Oil and Gas Commission (referred to variously in this report as the Commission or the OGC) was established by the Province of British Columbia as a service delivery Crown corporation. Its mandate is to regulate upstream oil and gas activity in British Columbia, including exploration, development, pipeline transportation to facilities, and reclamation activities.

Regulatory authority of the Commission is derived from legislation, which includes the:

- *Oil and Gas Commission Act*
- *Pipeline Act*
- *Petroleum and Natural Gas Act*
- *Land Act*
- *Forest Act*
- *Forest Practices Code of British Columbia Act*
- *Heritage Conservation Act*
- *Environmental Management Act*
- *Water Act*

The *Oil and Gas Commission Act* establishes the Commission as a Crown corporation and provides for the establishment of internal authority structures and the funding of the organization through fees and levies. The Act and other legislation also give the Commission authority to regulate various aspects of oil and gas activity. To view guiding legislation, visit the Commission website at: [www.ogc.gov.bc.ca/legislation.asp](http://www.ogc.gov.bc.ca/legislation.asp)

The Commission is governed by a three-member Board of Directors that is responsible for directing and overseeing the organization's affairs and operations. The Board also:

- ensures that the Commission exercises its powers in accordance with governing legislation;
- ensures that the Commission establishes appropriate internal controls and practices; and
- approves the Commission's budget, service plans and regulatory initiatives.

The Board is made up of a chair and two directors. The *Oil and Gas Commission Act* establishes the Deputy Minister of Ministry of Energy, Mines and Petroleum Resources as board chair, the Oil and Gas Commission Commissioner as vice chair, and a third independent member appointed by the Lieutenant Governor in Council.

As outlined in the chart below, the Board has two established standing committees: the Audit Committee and the Governance and Human Resources Committee.

The independent member serves as chair for the two sub-committees of the Board. The role of these sub-committees is to engage in review of policies, issues and corporate finances, and to make recommendations to the Board where decisions are made.

The Board of Directors provides policy direction and performance review, while operational matters are the responsibility of the Commissioner and the Executive Team, as shown in Figure 1.

FIGURE 1. Corporate governance structure of the Oil and Gas Commission.

## BOARD OF DIRECTORS

### MISSION

To ensure the OGC exercises its powers and performs its duties in accordance with the Act and other applicable laws

### DIRECTORS

- Greg Reimer, Deputy Minister of the Ministry of Energy, Mines and Petroleum Resources (Chair)
- Alex Ferguson, CEO and Commissioner, OGC
- John Jacobson, Independent Member, appointed by Lieutenant Governor in Council

## AUDIT COMMITTEE

### MISSION

To provide oversight and direction on matters relating to the financial position of the Commission

### DIRECTORS

- John Jacobson, Independent Member, appointed by Lieutenant Governor in Council
- Greg Reimer, Deputy Minister of the Ministry of Energy, Mines and Petroleum Resources
- Randall Smith, Leader, Corporate Services Division (ex-Officio)

## EXECUTIVE TEAM

### MISSION

To lead the management of business affairs of the Commission and to implement policy direction received from the Board

### DIRECTORS

- Alex Ferguson, CEO and Commissioner
- Paul Jeakins, Deputy Commissioner, Regulatory Affairs and Consultation
- Greg Lever, Chief Engineer, Engineering Division
- Steve Simons, Leader, Corporate Affairs Division
- Randall Smith, Executive Financial Officer
- (Vacant) Deputy Commissioner, Project Assessment and Compliance Assurance

## GOVERNANCE AND HUMAN RESOURCES COMMITTEE

### MISSION

To provide oversight and direction in regard to human resource and compensation matters and to ensure the good governance of the Commission

### DIRECTORS

- John Jacobson, Independent Member, appointed by Lieutenant Governor in Council
- Greg Reimer, Deputy Minister of the Ministry of Energy, Mines and Petroleum Resources
- Randall Smith, Leader, Corporate Services Division (ex-Officio)



Terms of reference for the Board and sub-committees are online <https://www.ogc.gov.bc.ca/board.asp>

The governance policies and practices of the Oil and Gas Commission and the Board of Directors comply with the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations (Best Practice Guidelines) February 2005, issued by the Board Resourcing and Development Office (BRDO), Office of the Premier of British Columbia.

### Organizational Structure

The Commission currently employs 150 employees in a structure based on functional operational responsibility and support services. There are three operational divisions: Engineering, Project Assessment and Compliance Assurance; and Regulatory Affairs and Consultation. The two support divisions are Corporate Services and Corporate Affairs. Figure 2 shows this structure.

The Commission has four offices in British Columbia (Figure 3). Its headquarters are in Fort St. John, which is located in the heart of the oil and gas activity in the province. The majority of the Commission's employees operate from this location.



FIGURE 2: The reporting relationship for the five operational divisions of the Oil and Gas Commission

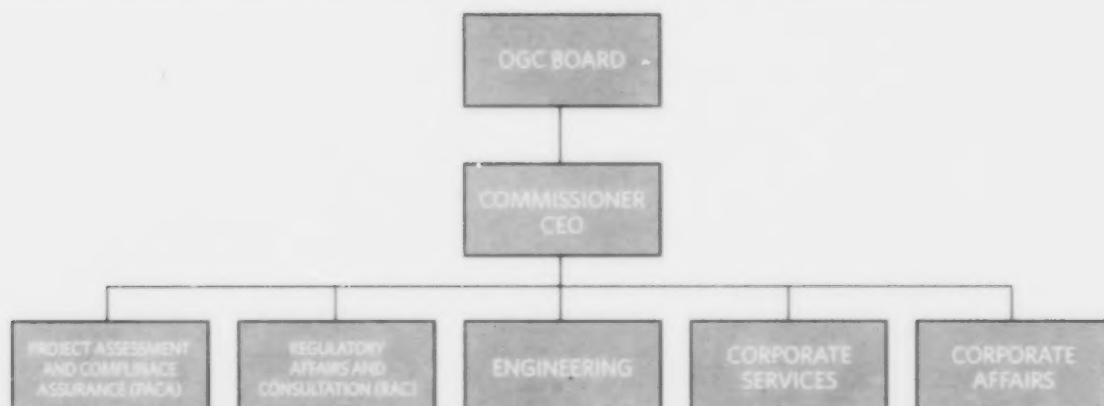


FIGURE 3: Location of the four Oil and Gas Commission offices in British Columbia



## ORGANIZATION OVERVIEW

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The Commission's core function is to regulate the oil and gas industry throughout British Columbia by reviewing and assessing activity, consulting on activity with First Nations, and ensuring that industry complies with provincial legislation regulating activity. Under this broad description fall a number of specific activities that support these aims.

The services provided by the Commission under its legislated mandate fall into four broad categories, outlined below.

1. **REVIEWING** and assessing applications for oil and gas activities and issuing approvals when appropriate. Applications are for such areas as:

- wells
- pipelines and facilities
- geophysical activities
- roads
- engineering and geology
- transfer of assets

The Commission liaises directly with industry representatives for most oil and gas activity applications and, where necessary, manages relationships with engineering partners and surveyors. More information about the application review process is available on the Commission's website at <https://www.ogc.gov.bc.ca/miscellaneous.asp>.

2. **ENSURING INDUSTRY COMPLIANCE** with legislative, regulatory and permit-specific requirements, in part through inspections and other monitoring and enforcement activities. Qualified Commission inspectors visit oil and gas activity sites to ensure that operations are proceeding in accordance with applicable regulations. More information on compliance and enforcement activities is available on the Commission's website at <https://www.ogc.gov.bc.ca/compliance.asp>.

3. **COMPLETING FIRST NATIONS CONSULTATION** on applications for activity. Consultation relationships with First Nations in Northeast British Columbia are guided by negotiated Consultation Process Agreements (CPAs) in place with First Nation communities in Northeast British Columbia. More information on these agreements and the consultation process is available on the Commission's website at [https://www.ogc.gov.bc.ca/pubdoc.asp\\_view=9.html](https://www.ogc.gov.bc.ca/pubdoc.asp_view=9.html).

4. **WORKING WITH PARTNER AGENCIES** such as the Ministry of Energy, Mines and Petroleum Resources, Ministry of Environment, Ministry of Agriculture and Lands, Ministry of Forests and Range, and others to ensure effective delivery of government policy, including goals in the BC Energy Plan.

Through all of these activities, the Commission protects the public interest. Environmental interests such as

appropriate land use activities are protected and, as appropriate, balanced with financial interests, including revenue to the Crown. These interests are protected through the implementation of guiding legislation, to ensure that the public purpose is served.

Table 1 shows the Commission's mandate as outlined in legislation, and the specific activities that support delivery of the mandate.

TABLE 1. The purposes of the Oil and Gas Commission (OCG), as set out in the *Oil and Gas Commission Act* (section 3)

OIL AND GAS COMMISSION ACT SECTION 3	COMMISSION ACTIVITIES
<b>3. (a) regulate oil and gas activities and pipelines in British Columbia in a manner that:</b>	
(i) provides for the sound development of the oil and gas sector by fostering a healthy environment, a sound economy and social well being;	<ul style="list-style-type: none"> <li>• Managing regulatory development and affairs</li> <li>• Assessing drilling deposit</li> <li>• Regulating drilling waste</li> <li>• Regulating air discharge</li> <li>• Estimating reclamation costs</li> <li>• Processing certificates of restoration</li> <li>• Managing Orphan Site Reclamation Fund</li> <li>• Administering the Science and Community Environmental Knowledge (SCEK) Fund</li> </ul>
(ii) conserves oil and gas resources in British Columbia;	<div data-bbox="602 1214 1317 1266"><b>SPECIFIC ACTIVITIES TO DELIVER MANDATE</b></div> <ul style="list-style-type: none"> <li>• Conducting geological and engineering evaluations</li> <li>• Analyzing oil and gas reserves</li> <li>• Compiling an inventory and mapping hydrocarbons</li> <li>• Evaluating wells</li> <li>• Managing subsurface technical information</li> <li>• Conducting production metering audits</li> </ul>

OIL AND GAS COMMISSION ACT SECTION 3	COMMISSION ACTIVITIES
<b>3. (a) regulate oil and gas activities and pipelines in British Columbia in a manner that:</b>	
(iii) ensures safe and efficient practices; and,	<b>SPECIFIC ACTIVITIES TO DELIVER MANDATE</b> <ul style="list-style-type: none"> <li>• Conducting inspections</li> <li>• Managing pipeline integrity management</li> <li>• Ensuring appropriate complaint responses</li> <li>• Ensuring appropriate incident responses</li> <li>• Implementing emergency management and response programs</li> <li>• Implementing a health and safety program</li> <li>• Implementing an investigations and compliance program</li> <li>• Recommending industry practices</li> </ul>
(iv) assists owners of oil and gas resources to participate equitably in the production of shared pools of oil and gas.	<ul style="list-style-type: none"> <li>• Conducting a Correlative Rights Review</li> <li>• Oil and Gas Reserve Analysis</li> <li>• Inventory and Mapping of Reserves</li> </ul>
(b) provide for effective and efficient processes for the review of applications related to oil and gas activities or pipelines, and to ensure that applications that are approved are in the public interest having regard to environmental, economic and social effects;	<ul style="list-style-type: none"> <li>• Reviewing applications for activity</li> <li>• Reviewing sour wells classifications</li> <li>• Transferring assets</li> <li>• Land administration</li> <li>• Enabling public engagement</li> </ul>
(c) encourage the participation of First Nations and aboriginal peoples in processes affecting them;	<ul style="list-style-type: none"> <li>• Enhancing Aboriginal relations</li> <li>• Consulting First Nations</li> <li>• Developing and implementing agreements with First Nations</li> </ul>
(d) participate in planning processes; and,	<ul style="list-style-type: none"> <li>• Developing Memorandums of Understanding (MOUs)</li> <li>• Conducting quality assurance</li> <li>• Participating in inter-agency activities</li> </ul>
(e) undertake programs of education and communication in order to advance safe and efficient practices and the other purposes of the commission.	<ul style="list-style-type: none"> <li>• Facilitating public engagement and dispute resolution</li> <li>• Liaising with landowners</li> <li>• Administering the Advisory Committee and Practice Advisory Group</li> <li>• Responding to requests for information</li> </ul>

Activities undertaken by the Commission within this mandate ensure the safe operation of all activities related to oil and gas in the province while encouraging a balance between economic, social and environmental benefits.

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### **Science and Community Environmental Knowledge (SCEK) Fund**

The Commission administers the Fund and collects fees and levies on its behalf. The purpose of the SCEK is to support and facilitate research concerning practical ways of addressing environmental issues related to oil and gas exploration in British Columbia. The vision is to continuously improve the understanding and management of the impacts of oil and gas activities in British Columbia. Study findings are incorporated, where appropriate, into practices and regulations.

More information about the SCEK Fund is available on the Commission's website at <https://www.ogc.gov.bc.ca/scek/>.

### **Orphan Site Reclamation Fund**

On April 1, 2006 legislation for a newly created Orphan Site Reclamation Fund was brought into force with an amendment to the *Oil and Gas Commission Act* and to the *Oil and Gas Commission Levy Regulation*. The Orphan Site Reclamation Fund is administered by the Commission and is intended to pay for the reclamation of orphan oil and gas sites – sites that no longer have an owner associated with them.

### **Principal Partners, Clients and Stakeholders**

Many individuals and groups are the direct beneficiaries of services provided by the Commission.

- As the provincial regulator of oil and gas activity in British Columbia, value is provided in many forms, to many kinds of stakeholders throughout the province. The Commission maintains a unique relationship with First Nations in Northeast British Columbia and has built on 10 years of partnerships to enhance the quality of decisions made by the Commission. Outside northeast British Columbia, the Commission also interfaces with First Nations on areas of oil and gas activity.

- The Commission maintains a number of working agreements and Memorandums of Understanding (MOUs) that support and define the relationship and delegated authorities with partner agencies. The agreements support Commission authority with respect to upholding the values associated with the partner agencies' mandates.
- Commission employees ensure the resource is recovered in the safest and most effective possible manner and that liabilities incurred through these activities are borne by the operators. In this capacity, the Commission regularly interfaces with industry, First Nations, landowners, the public, other government agencies, and corporate peers in other jurisdictions.
- Many partners use information that is collected and maintained by the Commission. For example, the BC Assessment Authority accesses information collected by the Commission in the development of annual assessment rolls; and the Integrated Land Management Bureau uses Commission information to update provincial land resource maps.
- The Commission regularly interfaces with the oil and gas industry – the primary users of the Commission's services. Such interactions range from sharing information to soliciting recommendations for best practices.
- The Commission maintains a strong voice in the communities where oil and gas activity occurs. This is done primarily through efforts of the Landowner Liaison Inspector, whose job is to assist landowners in gaining a better understanding of the oil and gas industry, the role of the Oil and Gas Commission and the role of many other government agencies.



## **Recent Changes to Service Delivery by the Commission**

The Commission made several adjustments to enhance service delivery in response to changes in the operating environment. A summary of the changes is provided below.

**Enhanced Planning Process** - The Commission is often required to respond to time-critical events. To provide greater consistency in response, the Commission has increased its focus on planning for both the near and longer term, through enhanced business planning and performance management processes.

### **First Nations Consultation Process Agreements -**

The implementation of Consultation Process Agreements (CPAs) with six First Nations groups in Northeast British Columbia resulted in important changes to service delivery outlined below. These agreements enhance service quality levels and provide increased consistency in timelines for service that can be expected by the Commission. In addition, the Commission and Blueberry River First Nations signed a Long Term Oil and Gas Agreement in 2007/08. Another such agreement has been concluded with the McLeod Lake Indian Band.

The CPAs encourage industry engagement of First Nations before applications are submitted to the OGC. Through early engagement, industry can improve First Nations participation and consultation timelines as well as integrate local knowledge into operational considerations. More information on these agreements is available at the Commission's website at <https://www.ogc.gov.bc.ca/abrelations.asp>.

**FrontCounter BC Office Opened in Fort St. John** - The Fort St. John reception area of the Commission was transformed on August 23, 2007, as the doors to the Peace Region FrontCounter BC office were opened. As an established "single-window service" provider for clients of provincial natural resource agencies, the Commission was a natural choice to host FrontCounter BC, an office that accepts applications from small and medium-sized natural resource based businesses as well as citizens of the Peace Region.

More information on the FrontCounter BC office is available at <http://www.frontcounterbc.gov.bc.ca>

#### **Enhanced Emergency Management Planning -**

To mitigate the potential consequences of oil and gas related incidents, the Commission requires operators in British Columbia to establish emergency preparedness plans for facilities, pipelines and wells. In the case of an incident, the Commission's responsibility is to ensure that companies activate these plans effectively, thereby contributing to public confidence in the government's requirements for public health and safety.

The profile of the Commission's role in Emergency Management Planning (EMP) has been raised over the last year through extensive training and increased interagency cooperation. These efforts have improved industry and public awareness of the role of the Commission while maintaining a state of readiness. More information on the Commission EMP program is available at [https://www.ogc.gov.bc.ca/well\\_erp\\_forms.asp](https://www.ogc.gov.bc.ca/well_erp_forms.asp).



#### **Shareholder's Letter of Expectations**

Strategic direction and performance expectations from the Government of British Columbia for the Commission are outlined in a Shareholder's Letter of Expectations. This document is a public agreement that outlines performance expectations, public policy issues and strategic priorities.

The most recent Letter of Expectations was signed on June 26, 2007, and is reviewed annually. It outlines the Commission's role in delivering commitments to:

- support successful implementation of the province's 2007 Energy Plan;
- ensure that industry will reduce flaring at oil and gas producing wells and production facilities by 50% by 2011; and
- engage staff in development of solutions to meet government climate change expectations, including development of a Commission-specific climate change plan.

The most recent Letter of Expectations is available at <https://www.ogc.gov.bc.ca/expectations.asp>



## REPORT ON PERFORMANCE

### Introduction

This annual report provides a snapshot of the Commission's performance in carrying out its activities to achieve organizational goals. Achievement of these goals is done through implementation of objectives and strategies and measured through performance indicators. Goals, objectives, strategies and measures have been selected to ensure that the Commission achieves its vision and mission.

### Vision

*To be the innovative regulatory leader, respected by stakeholders, First Nations and clients.*

### Mission

*Regulating oil and gas activity through fair, consistent, responsible and transparent stakeholder engagement, for the benefit of British Columbians and by balancing environmental, economic and social outcomes.*

The performance of the Commission is based on the goals and expectations that were set in the 2007/08 Service Plan. The Service Plan provides a three-year outlook for the direction of the organization, reflecting the trends and issues faced by the Commission, and serves as the basis for annual corporate business planning.

### THE GOALS SET IN THE 2007/08 SERVICE PLAN ARE:

1. We will continually improve public safety, protection of the environment, and conservation of petroleum resources.
2. We will make timely and informed decisions based upon the input we receive.
3. We will strengthen our relationships with stakeholders, First Nations, and clients.
4. We will participate in modernizing the OGC's legislative and regulatory framework.
5. We will provide a personal-best performance environment for our employees.
6. We will operate as a self-sustaining organization.



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The first four goals relate to the four core functions of the Commission, as outlined in this document and in legislation. Goal 1 relates to ensuring industry compliance with regulations and includes many of the engineering functions of the Commission. Goal 2 relates to review and assessments of applications and decisions of the Commission in general. Goal 3 relates to the Commission's ability to work cooperatively to meet specific aims, and includes activities such as consultation with First Nations. Goal 4 relates to ensuring that an effective operating environment is in place to meet the previous three goals, and includes efforts to provide streamlined, one-window service.

Goals 5 and 6 speak to ensuring that the internal operating environment of the Commission is strong and positive. Goal 5 is important to ensure that a strong foundation is in place for increasing information flow, developing Commission employees, and fostering a healthy corporate culture. Goal 6 relates to maintaining optimal financial health for the organization.

These goals were updated, modernized and simplified as part of a regular comprehensive review, resulting in the following published in the 2008/09 Service Plan:

1. The OGC protects the interests of the people of British Columbia.
2. The OGC makes quality decisions in a timely manner.
3. The OGC is recognized as a service-oriented organization.
4. The OGC continually improves the regulatory environment.
5. The OGC is a great place to work.

More information about the changes that were made is presented in Appendix A to this report.

In the 2007/08 Service Plan, strategies and objectives were chosen to reflect the direction for activities of the Commission based on an annual review of the operating environment. Tactical direction for the Commission is outlined in the corporate business plan, which is also updated annually and provides a three-year outlook, outlining the specific processes and projects that will be undertaken to achieve the goals of the service plan. More information on the Commission's business plan is available at [https://www.ogc.gov.bc.ca/business\\_plan.html](https://www.ogc.gov.bc.ca/business_plan.html).

Measures have been chosen and targets have been set to outline what success looks like for each goal. Actual results in the goal summaries below are shown for the previous and current year, and targets are shown for the upcoming three years. This provides a complete performance picture for the Commission. The measures have been selected from numerous possible indicators used to track and guide overall performance.

The Commission strives to measure both outputs and outcomes of activities, and to incorporate the eight reporting principles set out by the Office of the Auditor General of British Columbia

Most of the Commission's measurement information is collected through the organization's database systems, including the IRIS and KERMIT systems, and the financial and human resource information systems.

## 2007 - Summary of Performance

Critical performance targets were met, including compliance results. Application processing timelines are at some of the lowest observed levels in the Commission's history. Of the 26 strategies identified by the Commission in the 2007/08 Service Plan, 24 were either achieved or are ongoing. This has resulted in strong performance on many of the key Commission performance measures and objectives:

<b>OBJECTIVE:</b>	Increase the number and nature of field inspections of oil and gas activities.
<b>RESULT:</b>	The Commission exceeded its performance target with a result of 4,426 inspections completed.
<b>OBJECTIVE:</b>	Work collaboratively with industry to improve compliance and risk management.
<b>RESULT:</b>	The Commission measured 98% field compliance for exploration and development activities, and observed 97% field compliance for facilities and operations.
<b>OBJECTIVE:</b>	Maintain service levels and meet growth demands through the continuous improvement of people, processes and tools.
<b>RESULT:</b>	The Commission was able to decrease the turnaround time for new applications by a full calendar day in 2007/08, and processing times are now the lowest in Commission history.
<b>OBJECTIVE:</b>	Provide a dispute resolution model of appropriate scope.
<b>RESULT:</b>	The Commission has paralleled its dispute resolution processes with those of the Mediation Arbitration Board to provide better service and outcomes for parties involved.
<b>OBJECTIVE:</b>	Improve extent and quality of engagement with stakeholders, First Nations and clients.
<b>RESULT:</b>	The Commission implemented updated agreements with Treaty 8 First Nations, the Agricultural Land Commission and the National Energy Board, and has prepared to implement agreements that may arise under the <i>Oil and Gas Activities Act</i> .
<b>OBJECTIVE:</b>	Move towards performance-based regulation where appropriate.
<b>RESULT:</b>	The Commission provided considerable support to partner agencies in modernizing the legislative and regulatory framework in 2007/08.
<b>OBJECTIVE:</b>	Provide appropriate training and development opportunities for employees.
<b>RESULT:</b>	The Commission continues to invest heavily in the training and development needs of employees, budgeting \$2,436 in training costs per employee in 2007/08.
<b>OBJECTIVE:</b>	Achieve targeted financial results.
<b>RESULT:</b>	The Commission achieved the targeted 56:44 split between fees and levies, and was able to fully recover operational costs.

## Benchmarking

The Commission benchmarks internal valuation processes and practices against selected North American oil and gas regulators and provincial Crown corporations and public agencies. In 2008/09, the Commission introduced several new performance measures in its organizational service plan. A benchmarking analysis was conducted with the aim of improving measurement information.

A total of 164 performance measures from 19 organizations were reviewed, as identified through the organization's service plans and annual reports. Organizations reviewed included oil and gas regulators in Canada, Crown corporations in British Columbia, government ministries in Canada, and oil and gas regulators outside of Canada.

The Commission occupies a unique role with its single-window regulatory service. Research confirms that no oil and gas regulatory agency in North America provides the range of services that the Commission provides.

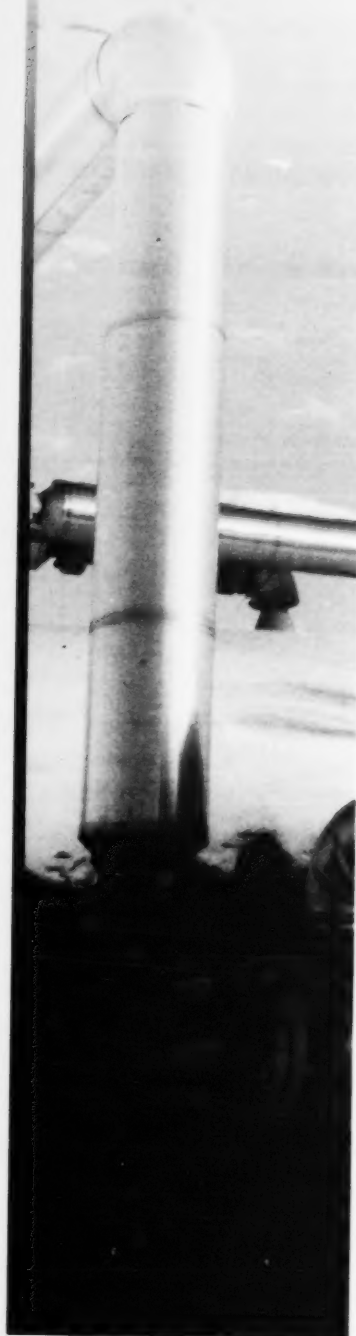
Performance on Commission goals, objectives, strategies and measures are outlined in the following section in table format.

GOAL 1					
We will continually improve public safety, protection of the environment, and conservation of petroleum resources.					
<b>OBJECTIVES</b>					
1. Increase the number and nature of field inspections.					
2. Work collaboratively with industry to improve compliance and risk management.					
<b>STRATEGIES</b>					
1. Undertake risk and performance assessments, and identify appropriate preventative strategies					Achieved
2. Deliver educational and compliance programs to industry.					Achieved
3. Implement the orphan site program as legislated by government.					Achieved
4. Improve compliance-related data collection and expand compliance-related reporting.					Achieved
PERFORMANCE MEASURES	RESULTS		TARGETS		
	2006/07 Result	2007/08 Result	2007/08 Target	2008/09 Target	2009/10 Target
<b>Major compliance - exploration and development<sup>1</sup></b> Baseline: 79% (2001/02) Benchmark: 97.7% (Alberta ERCB, 2004) <sup>2</sup>	99%	98% Target Exceeded	94%	95%	96%
<b>Major compliance - facility, operations</b> Baseline: 93% (2002/03) Benchmark: 97.7% (Alberta ERCB, 2004) <sup>3</sup>	95%	97% Target Met	97%	97%	97%
<b>Number of inspections</b> Baseline: 2,998 (2000/01)	4,124	4,426 Target Exceeded	4,370	4,990	4,990

<sup>1</sup> Compliance rates reflect the total number of individual inspection parameters found to be in compliance, as a percentage of the total number of such parameters across all sites inspected.

<sup>2</sup> Percent of major and serious unsatisfactory incidents of non-compliance related to field inspection results, 2004 = 2.3%. Alberta Ministry of Energy 2004-05 Annual Report, p. 49.

<sup>3</sup> Ibid.



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All strategies related to this goal were achieved through the core operational activities of the Commission. All performance targets were either met or exceeded.

The first two measures highlight how compliance can be increased through the steady application of the strategies of this goal, including the delivery of educational and compliance programs to industry. In the first measure, a steadily increasing target was set as part of a trend started in 2002/03, and results have increased in step steadily since that time. The target of 97% for the second measure is long-standing, and results have remained consistent since 2003/04.

The third measure was established in 2004/05, and since then, the number of inspections conducted by the Commission has increased by nearly 50%. As industry efforts have expanded, there is a greater need to expand inspection efforts. No benchmarks are available.

Almost all compliance information for performance measures of this goal is drawn from the Commission's KERMIT database, used to manage applications and inspections. The exception is information on non-site inspections. It is drawn from the IRIS database.

## GOAL 2

We will make timely and informed decisions based upon the input we receive.

### OBJECTIVES

1. Maintain service levels and meet growth demands through the continuous improvement of people, processes and tools.
2. Combine community knowledge and science in all aspects of regulation.
3. Improve dispute resolution processes, procedures and outcomes.

### STRATEGIES

1. Complete process improvements and establish a "continuously learning" organization.
2. Create an electronic application system and program management tools.
3. Develop and implement an enhanced alternative dispute resolution program.

Ongoing  
Achieved  
Achieved

PERFORMANCE MEASURES	RESULTS		TARGETS		
	2006/07 Result	2007/08 Result	2007/08 Target	2008/09 Target	2009/10 Target
<b>Average number of calendar days to assess new applications</b> Baseline: 33 calendar days (2001/02) Benchmark: 30 days (Colorado Oil and Gas Conservation Commission Strategic Plan) <sup>4</sup>	25	24 Target substantially met	23	21	21

Because the Commission is a decision-making agency, a goal and performance measure associated with decision timelines gives a reasonable indication of the performance of the Commission on its core activities. It also provides certainty to client groups for operational planning activities.

All strategies for this goal were either achieved or remain "ongoing." This year, the Commission launched KERMIT, a new web-based tool that is used to administer applications. Pipeline and facility applications are processed in KERMIT and all other applications are processed in the previous database, IRIS. Results for this performance indicator are drawn from both databases.

The Commission has achieved a continuous reduction in the average number of calendar days to assess new applications. This year it was able to achieve one of its best results, at 24 days - a full day reduction from the previous year and a remarkable nine-day reduction from the baseline of 33 days in 2001/02. These are notable results compared with the benchmark from Colorado of 30 days.

A component unique to British Columbia and critical to application review processing timelines is the consultation with First Nations on applications for activity. Newly implemented Consultation Process Agreements provide increased certainty for all parties involved.

<sup>4</sup> Objective 2: "Expedite the processing of oil and gas well drilling, re-completion and disposal/enhanced recovery well permit applications" measure 2, "Process all complete permit applications within 30 days" <http://oil-gas.state.co.us/>

### GOAL 3

We will strengthen our relationships with stakeholders, First Nations, and clients.

#### OBJECTIVES

1. Improve extent and quality of engagement with stakeholders, First Nations, and clients.
2. Provide a dispute resolution model of appropriate scope.
3. Ensure appropriate consultation regarding application assessments.

#### STRATEGIES

- |  |          |
|--|----------|
| 1. Regularly assess client and key stakeholder satisfaction with OGC.                            | Achieved |
| 2. Develop an appropriate suite of dispute resolution tools for stakeholders.                    | Achieved |
| 3. Review and update agreements and MOUs with First Nations and partner ministries and agencies. | Achieved |
| 4. Implement a timely abandonment and restoration program for oil and gas facilities.            | Ongoing  |

PERFORMANCE MEASURES	RESULTS		TARGETS		
	2006/07 Result	2007/08 Result	2007/08 Target	2008/09 Target	2009/10 Target
<b>Percent of applications responded to by First Nations</b> Baseline: 75.2% (2001/02) Benchmark: 75% (BC Environmental Assessment Office, 2007/08)	76%	76% Target not met	84%	84%	84%
<b>Client satisfaction</b> Baseline: 75% (2004/05) Benchmark: 80% (National Energy Board, 2005/06)	89%	82% Target substantially met	85%	85%	85%

The Commission, as a regulator, continually evolves relationships with key stakeholders and partners. These activities are measured through this goal. All strategies of the 2007/08 Service Plan were either achieved or reflect ongoing activities of the Commission.

The result for the first performance measure has been maintained from the previous year. While capacity remains an issue for many First Nations, new Consultation Process Agreements (CPAs) established with First Nations in Northeast British Columbia and implemented in 2007/08 provide increased certainty in consultation relationships for both parties. A new measure is under development to reflect the outcomes of these process changes. Applications for activity are managed in both the KERMIT and IRIS databases. For this reason, results are drawn from both databases, depending on the application type.

Benchmarks were introduced for these measures in this Annual Report. For the first measure, a benchmark of 75% was introduced, based on the results of the British Columbia Environmental Assessment Office from the measure: "Percentage of project assessments with First Nations engaged in working group(s)."<sup>5</sup> For the second measure, a benchmark from the National Energy Board was established of 80%.<sup>6</sup> Targets for the second measure were set prior to the identification of a benchmark, based on performance.

As a Crown corporation, the Commission's accountabilities extend to affected communities, First Nations, client companies and their representative associations. All of these constituents form participants in the client survey. An independent consultant administers the client survey externally.

<sup>5</sup> "Percentage of project assessments with First Nations engaged in working group(s)" 2007/08 - 2009/10 Service Plan, British Columbia Environmental Assessment Office, p. 72, available at: <http://www.bcbudget.gov.bc.ca/2007/sp/pdf/ministry/enr.pdf>

<sup>6</sup> "Stakeholder satisfaction" 2005/06, National Energy Board Performance Report, section 2.4, available at: (2005-2006) available at: [http://www.the-sct.gc.ca/dpr/rmy/QR06/nrb-ene/nrb-eneQ2\\_e.asp#\\_top14228118](http://www.the-sct.gc.ca/dpr/rmy/QR06/nrb-ene/nrb-eneQ2_e.asp#_top14228118)

## GOAL 4

We will participate in modernizing the OGC's legislative and regulatory framework.

### OBJECTIVES

1. Enhance a comprehensive legislative and regulatory framework that enables improved and single-window delivery of services to industry.
2. Move towards performance-based regulation where appropriate, facilitating reliance on best-available technical information and wise management practices.

### STRATEGIES

1. Support the Ministry of Energy, Mines and Petroleum Resources in the development of a new legislative and regulatory framework and in consultations related to that. Achieved
2. Undertake internal business reviews and other processes necessary to facilitate the transition to a new legislative and regulatory framework. Achieved
3. Continually manage and improve MOUs with partner ministries and agencies, and ensure good communication with other levels of government. Achieved
4. Develop a suite of wise management practices, facilitating site-specific approaches, for industry reference and use. Achieved
5. Determine where prescriptive regulatory approaches remain best suited to maintenance of safety, environment and conservation-related values. Achieved

PERFORMANCE MEASURES	RESULTS		TARGETS		
	2006/07 Result	2007/08 Result	2007/08 Target	2008/09 Target	2009/10 Target
<b>Number of agencies that industry clients must work with on oil and gas applications</b> Baseline: 6 (1998/99)	2	2 Target not met	1	1	1

The Commission was established as a one-window regulator of oil and gas activities for British Columbia, and the performance measure and its targets have been set to show the accomplishments of that aim.

When the measure was established, the oil and gas industry worked with six agencies in all. This is now reduced to two. A critical factor needed to meet the target of true single-window regulation is to establish a Memorandum of Understanding (MOU) with the Ministry of Environment. Efforts have been delayed while industry conducts a gap analysis on existing legislation and service provision.

All strategies of this goal as outlined in the 2007/08 Service Plan were achieved, primarily through activities relating to the development of new legislation, the *Oil and Gas Activities Act*. In addition, several MOUs were established, with agencies including the National Energy Board, the Agricultural Land Commission, and the Mediation and Arbitration Board.



## GOAL 5

We will provide a personal-best performance environment for our employees.

### OBJECTIVES

1. Improve organizational flexibility and competitiveness as an employer.
2. Enhance employee capabilities and professionalism.
3. Enhance management and leadership capabilities.
4. Improve employee retention.
5. Improve organizational productivity.

### STRATEGIES

- |  |          |
|--|----------|
| 1. Work towards long-term solutions to our recruitment and retention challenges.   | Ongoing  |
| 2. Conduct regular performance evaluation and planning for all employees and close identified performance gaps.  | Ongoing  |
| 3. Provide appropriate training and development opportunities to support individual and organizational capacity development.   | Ongoing  |
| 4. Conduct regular performance surveys on senior managers and close identified performance gaps.   | Delayed  |
| 5. Formally engage staff and management in the development of human resource strategies that facilitate recruitment and retention and that contribute to a professional, collaborative and inspiring work environment. | Achieved |

PERFORMANCE MEASURES	RESULTS		TARGETS		
	2006/07 Result	2007/08 Result	2007/08 Target	2008/09 Target	2009/10 Target
<b>Percentage of employees with a performance plan and evaluation in place</b> Baseline: 13% (2004/05)	100% of management	17% Target not met	100%	100%	100%
<b>Voluntary turnover rate of regular staff</b> Baseline: 11.3% (2000/01) Benchmarks: 2.6% (BC Government, 2005/06); 5.4% (AEUB, 2004/05)	15%	18% Target not met	9%	8%	7%
<b>Budgeted investment in training per employee</b> Baseline: \$985 (2005/06) Benchmark: \$852 (Conference Board of Canada, 2007) <sup>1</sup>	\$2,114	\$2,436 Target not met	\$3,000	\$4,000	\$4,000

While many activities were undertaken to achieve this goal, performance targets were not met. Many of the strategies reflect ongoing activities that are difficult to define as "achieved," such as the work towards recruitment and retention challenges, and training and development activities. The result for the first performance measure is significantly below target. Performance planning and evaluations were impacted by leadership and organizational changes. A renewed focus in the latter part of the fiscal year on setting quarterly objectives for excluded managers is the now baseline for employee performance planning and evaluation across the organization. The Commission has increased its human

<sup>1</sup> Benchmark of \$852 is drawn from the Conference Board of Canada and represents the "Average training expenditure per employee spent in Canada" (2007). The Conference Board's Learning and Development Outlook 2007 is online at: <http://www.conferenceboard.ca/documents.asp?text=1999>



resources capacity and expects to meet this target going forward. The result for the voluntary turnover measure has increased by 2% from the previous year and is higher than targeted. Recruitment continues to be a challenge in northern locations. Activities undertaken in 2007/08 include the introduction of new Collective Agreements with enhanced compensation plans. The Commission continues to invest heavily in the training and development needs of employees, and the third performance measure, "Budgeted investment in training per employee," highlights these commitments. While the target was not met, previous year commitments were exceeded. Benchmarks are not available. Information to calculate these measures is drawn from the Commission's financial system and the payroll system.

GOAL 6																													
We will operate as a self-sustaining organization.																													
<b>OBJECTIVES</b> <ol style="list-style-type: none"> <li>1. Achieve targeted financial results.</li> <li>2. Minimize working capital pressures.</li> <li>3. Ensure that prudent risk management practices are in place.</li> </ol>																													
<b>STRATEGIES</b> <ol style="list-style-type: none"> <li>1. Generate sufficient revenue to cover OGC costs.</li> <li>2. Ensure sufficient working capital to manage unexpected fluctuations.</li> <li>3. Fully implement the Risk Management Program.</li> <li>4. Introduce an improved financial information system.</li> <li>5. Continue to identify opportunities for efficiencies through process reviews.</li> </ol>																													
<table> <tr> <th>PERFORMANCE MEASURES</th><th colspan="2">RESULTS</th><th colspan="3">TARGETS</th></tr> <tr> <th></th><th>2006/07 Result</th><th>2007/08 Result</th><th>2007/08 Target</th><th>2008/09 Target</th><th>2009/10 Target</th></tr> <tr> <td> <b>Ratio between fees and levies</b>  Baseline: 66:34 (2003/04) </td><td>55:45</td><td>56:44 Target met</td><td>56:44</td><td>56:44</td><td>56:44</td></tr> <tr> <td> <b>Percentage of costs recovered by revenue</b>  Baseline: 95% (1998/99) </td><td>111%</td><td>103% Target exceeded</td><td>100%</td><td>100%</td><td>100%</td></tr> </table>						PERFORMANCE MEASURES	RESULTS		TARGETS				2006/07 Result	2007/08 Result	2007/08 Target	2008/09 Target	2009/10 Target	<b>Ratio between fees and levies</b> Baseline: 66:34 (2003/04)	55:45	56:44 Target met	56:44	56:44	56:44	<b>Percentage of costs recovered by revenue</b> Baseline: 95% (1998/99)	111%	103% Target exceeded	100%	100%	100%
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			Achieved • Achieved Not Achieved Achieved Achieved																										

Four of the five strategies of this goal were achieved. For the first two strategies, revenues exceeded costs on a consolidated basis by 3% and working capital exceeded targets. The Risk Management Program was not implemented because of a change in management priorities. A new financial system, Great Plains, was introduced and is being integrated into operations. Opportunities have been identified for achieving efficiencies in, for example, the fee structure review process and orphan wells decision-making process.

Both targets were achieved for this goal and indicate financial stability. The first measure, "ratio between fees and levies," provides some assurance that the appropriate sources of revenues are being collected from appropriate operating groups in the province. The values for previous years for this measure were the baseline, measured at 66:34 in 2003/04, 59:41 in 2004/05, and 55:45 in 2006/07. Benchmarks are not available for either measure.

The second measure, "percentage of costs recovered by revenue," was selected because it is an indicator of the financial stability of the Commission. The baseline for this measure is 0.95:1 from 1998/99. Results for 2005/06 and 2006/07 were 106% and 111%, respectively. All information to generate these metrics was provided from the Commission's financial system.

## FINANCIAL REPORT

### Financial Results

For fiscal year 2007/08, on a non-consolidated basis the Commission's net loss was \$140,000, compared to a budgeted net loss approaching \$1.9 million and Net Income of \$2.8 million in the prior year. Although revenues at \$26.3 million were \$2.5 million less than budgeted, expenses were \$26.6 million - \$4.3 million less than estimated.

Consolidated Financial Results \$000	2003/04 Actual	2004/05 Actual	2005/06 Actual <sup>1</sup>	2006/07 Actual	2007/08 Budget	2007/08 Actual
<b>Revenues</b>						
Fees	14,019	16,243	16,605	14,364	13,900	11,568
Levies	6,221	10,283	11,415	14,323	13,969	13,727
Misc. and recoveries	120	402	1,709	1,039	1,065	1,057
<b>Total Revenues</b>	<b>20,360</b>	<b>26,928</b>	<b>29,729</b>	<b>29,726</b>	<b>28,934</b>	<b>26,352</b>
<b>Expenses</b>						
First Nations	8,779	9,819	11,108	9,065	8,700	7,103
Salaries and benefits	8,343	9,198	10,078	11,370	14,424	13,165
Operating expenses	3,959	4,588	6,776	6,579	9,543	6,329
<b>Total Expenses</b>	<b>21,081</b>	<b>23,605</b>	<b>27,962</b>	<b>27,014</b>	<b>32,667</b>	<b>26,597</b>
<b>Operating Income (Loss)</b>	<b>(721)</b>	<b>3,323</b>	<b>1,767</b>	<b>2,712</b>	<b>(3,733)</b>	<b>(245)</b>
Amortization of contributed assets	95	95	95	105	95	105
Orphan Site Reclamation Fund Surplus				911	964	841
<b>Consolidated Net Income</b>				<b>3,728</b>	<b>(2,674)</b>	<b>701</b>

<sup>1</sup> Fiscal year 2005/06 and prior years' financial data reported on a non-consolidated basis, excluding the Orphan Sites Reclamation Fund.

Fee revenues are derived mainly from well-drilling permit applications, but also from pipeline and geotechnical permit applications and assessments on operating pipelines. Because drilling activity levels can be volatile year-to-year, fee revenue is difficult to forecast accurately - it is affected by the price of natural gas and crude oil, industry outlook, and even weather and technological advances. For 2007/08, fee revenue of \$11.6 million was down from the prior year's \$14.4 million and 16.8% below budget of \$13.9 million. There were 1,106 well applications in the year compared to 1,527 the prior year and 1,700 forecast for 2007/08.

Levy revenue is earned on production of natural gas and oil from the subsurface. The volumes are more predictable, and although they do fluctuate somewhat with commodity prices, the revenue derived is also more easily predictable. Levy revenue decreased slightly from \$14.3 million to \$13.7 million and was 2% below budget of \$14 million.

Relations with First Nations are managed through Consultation Process Agreements (CPAs), which base payments to First Nations on well application fees. In 2007/08, the number of applications decreased from 1,527 to 1,106, a decrease of 27.6%; and payments to First Nations decreased from \$9.1 million to \$7.1 million, a decline of 22%.

The most significant expense of the Commission, in magnitude and importance, is salaries and benefits. The Commission employs people with a variety of expertise in a wide range of technical and professional fields. Increases in FTEs are planned to manage an expected increase in industry activity. As well, in an effort to manage turnover of our most valuable asset - our people, a new compensation plan has augmented payroll expenses. Salaries and benefits expense did increase by 15.8%, from \$11.4 million to slightly under \$13.2 million.

General operating expenses actually decreased from \$6.8 million to \$6.3 million and were \$1.6 million less than forecast. Of these, travel and vehicle costs, building occupancy, and amortization were up, whereas professional services expenses, telecommunications, and the reserve for doubtful accounts were less than in the year before.

The Orphan Site Reclamation Fund (Orphan Fund) is administered and managed by the Oil and Gas Commission. The financial results of the Orphan Fund are therefore consolidated with the Commission's financial position and results in the audited financial statements. On its own, the Commission's operations resulted in a net loss of \$140,000 for fiscal year 2007/08. When consolidated with the Orphan Fund's surplus of \$841,000, however, net income was \$701,000. This increased net assets to \$15,440,000 at year-end.

## Financial Position

In several years past, actual income from operations exceeded forecast, allowing the Commission to build a net assets surplus. Notably, there was a balance in cash of \$6.9 million at March 31, 2008, which management intends to use partly for premises and capacity/technology improvement. Accounts receivable, slightly up from the prior year at \$4.7 million, are also of notable magnitude. Levy revenues become receivable as they are earned on production, but are not received for three or four months.

Cash balances in the Orphan Fund exceeded \$1.5 million at the end of fiscal year 2007/08, up about \$800,000 from 2006/07. Levy revenues for the fund were supplemented by drilling deposit revenue and recoveries from the Province for specific reclamation work.

During 2007/08, the Commission invested over \$1.4 million in property, plant and equipment, the majority of which was for continuation of IT migration which had begun in prior periods. Netted with amortization, the balance of this line item in the financial statements increased minimally (2.3%) to just over \$3.2 million.

Wages payable was notably higher than at the prior year-end, due to the timing of pay periods around year-end and additional accruals for leave and retirement liability. The liabilities of the Commission at the end of 2007/08 resulted only from operations - the Commission had no debt outstanding from financing. In equity, only \$128,000 remained of contributions from the Province.

## Capacity, Outlook and Drivers

As the regulator of oil and gas activity in British Columbia, the Oil and Gas Commission continually strives to keep pace with a dynamic and rapidly growing oil and gas industry. This includes taking bold, proactive steps and providing innovative solutions to ensure safe and sustainable development while considering the needs of a competitive and thriving industry, community interactions and First Nations rights.

The Commission has developed a risk management system as a key component of its Enterprise Risk Management Strategy. The OGC Risk Register now includes fully documented process flow analysis for all major business processes. In addition, the OGC Risk Register documents options for risk mitigation, strategies and timelines.

As the cornerstone of the Commission's business planning, this risk analysis prioritizes the overall mitigation strategies for efficient use of available resources.

The following table presents an analysis of the primary risks that the Commission faced and the strategies implemented during 2007/08 to address these risks:

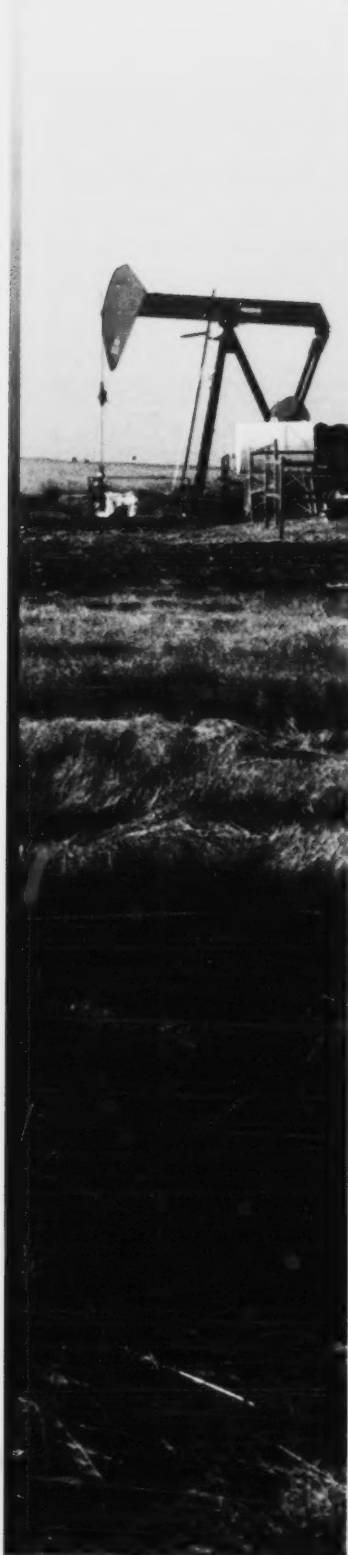
DRIVER	ISSUE IMPACT	RESULTS DURING 2007/08
<b>Regulatory Trends</b>	Modernization and refining of legislative and regulatory framework are under way to broaden the Commission's mandate and move towards a true "single-window" approach.	<p>The Commission worked with government and industry on regulatory improvement and improved interagency coordination. The Commission also developed "best management" practices, more effectively addressing regulatory issues through a risk-management and performance-based approach.</p> <p>With the introduction of new legislation, the Commission's ability to respond to change will be enhanced. The Commission was able to contribute positively to the changes in legislation.</p>
<b>First Nations Participation</b>	The Commission has implemented defined consultation relationships in coordination with First Nations communities in Northeast British Columbia. As the oil and gas industry evolves and moves into new areas of the province, consultation needs to occur in a timely manner to ensure that First Nations communities are not adversely affected.	Continuing to build on previous experiences and defining new relationships with First Nations is an important part of Commission service delivery. The Commission is committed to working with First Nations communities.

DRIVER	ISSUE IMPACT	RESULTS DURING 2007/08
<b>Resource Planning and Development</b>	<p>Requirements are increasing for enhanced surface and sub-surface operational planning in the province. This is relevant for all oil and gas activities.</p>	<p>The Commission's response to this trend is to increase capacity for landscape-level resource planning.</p> <p>In addition, the Commission will continue to deliver its core mandate and implement policy decisions</p>
<b>Industry Activity Trends/Funding</b>	<p>The OGC has a relatively stable expense structure; premises and payroll expenses are not easily varied. However, revenue streams based on industry activity (and especially drilling activity) are volatile, and lead-time is required to adjust levy rates or fees.</p> <p>This can lead to unforeseen liquidity issues, fee and levy rate increases and operating surpluses and deficits.</p> <p>As well, service delivery standards could deteriorate if extreme increases in activity occur without change in capacity.</p>	<p>Internally, the OGC is improving the forecasting and monitoring of industry expectations through increased financial capacity.</p> <p>Objectives and strategies are in place to increase the Commission's internal technical capacity to review and manage applications and to ensure that quality decisions are made in a timely manner. Increases in FTEs provide more flexibility to manage these changes.</p> <p>A level of industry activity that meets or exceeds the forecast is essential for the Commission to achieve its financial and performance goals. The Commission works closely with the Ministry of Energy, Mines and Petroleum Resources and the Canadian Association of Petroleum producers to identify forecasted industry activity. Mid-course corrective spending measures can be implemented as required. The Commission is also reviewing its revenue model to address volatile revenues in a fixed-cost environment.</p>

DRIVER	ISSUE IMPACT	RESULTS DURING 2007/08
<b>Information Technology</b>	<p>As information technology evolves and becomes available, many opportunities are presented to improve service delivery. New technologies provide opportunities to increase linkages between working groups, reduce timelines for service delivery, increase data integrity and quality of decision-making.</p>	<p>The Commission has undertaken significant steps to update both internal Information Technology (IT) capacity (accounting systems, Human Resources support, pipeline and well application processes) and external IT interfacing (online application processes, etc.). The Commission recognizes that technology is a crucial element to delivery of service and operational activities.</p> <p>The IT migration plan Phase I KERMIT release was completed in July and KERMIT Production support continued throughout the year and workflow enhancements. The Commission made numerous upgrades to the operating systems and initiated server upgrades along with the staged refresh of computers. Remote synchronization of field inspections is currently being reviewed in test mode by Commission staff.</p> <p>The Phase II Wells Authorization and Drilling Software Requirements Specification document for online submissions was completed in December 2007. The Commission's IT Steering Committee has deferred further KERMIT development of this phase pending an independent review: of emerging business processes, the Commission's IT vision, current database management systems and need based on new legislative requirements as a result of the <i>Oil and Gas Activities Act</i>.</p>
<b>Reorganization</b>	<p>As the oil and gas industry matures, the Commission handles more complex development applications each year, resulting in more complex consultation and compliance activities.</p>	<p>To keep pace with changing needs, the Commission streamlines regulatory processes, aggressively pursues skilled workers and conducts ongoing skills training and development for staff.</p> <p>Further restructuring of the engineering and technical groups was undertaken to enhance knowledge-sharing across the organization.</p>

DRIVER	ISSUE IMPACT	RESULTS DURING 2007/08
<p><b>Human Resources</b></p>	<p>The Commission is experiencing labour market pressures, including challenges recruiting in northern locations.</p> <p>Competition for leadership talent is a challenge.</p> <p>The Commission recognizes the need to build a strong Human Resources (HR) infrastructure to support the strategic context of the organization.</p> <p>Labour relations work continues.</p>	<p>The Commission will continue to focus on enhancing its employment package, marketing its unique employment brand and developing its staff. As 2007/08 was the organization's first full year as a distinct employer separate from the Public Service, much of the focus of HR was directed to activities related to recruitment and retention issues that supported the exit.</p> <p>The upcoming years will see the Commission put a greater focus on developing supervisors and senior leaders to ensure that leadership talent is in place.</p> <p>As it continues to establish itself as a unique employer, the Commission will require increased focus on establishing systems, policies and procedures to support the HR needs of a growing organization. The department grew in 2007/08 to include a new Recruitment and Orientation Coordinator who provides more support and service for staffing projects and new employees. A Human Resources Information System was purchased, to be implemented in the 2008.</p> <p>Collective agreements were ratified with both unions and a new compensation plan was implemented for excluded staff. Employees participated in the Commission's first Work Environment Survey, which was aimed at measuring and identifying priorities for increasing employee satisfaction and engagement.</p>



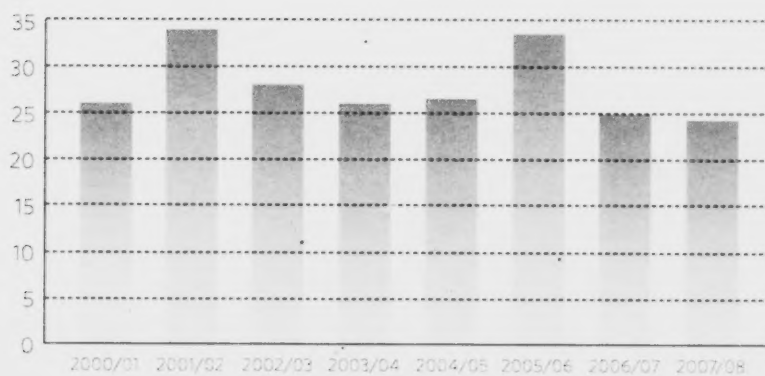


## Independently Determined Historical Operating Data

### *Number of days to process an application*

The number of calendar days to assess new applications decreased to 24 calendar days. This was more than the fiscal target of 23 calendar days outlined in Goal 2 of the Commission's Performance Management Model. This result was affected by the learning curve associated with the introduction of a new pipeline and facilities information technology system.

PROCESSING DAYS



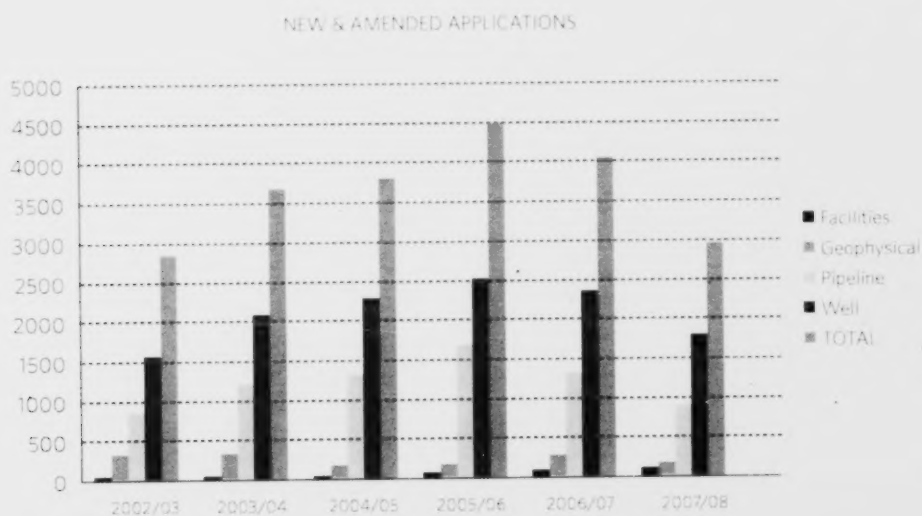
Management will continue to closely monitor processing timelines. The Commission will also have discussions with clients to determine if there is a more meaningful measure of efficiency available.



### Total number of new and amended applications

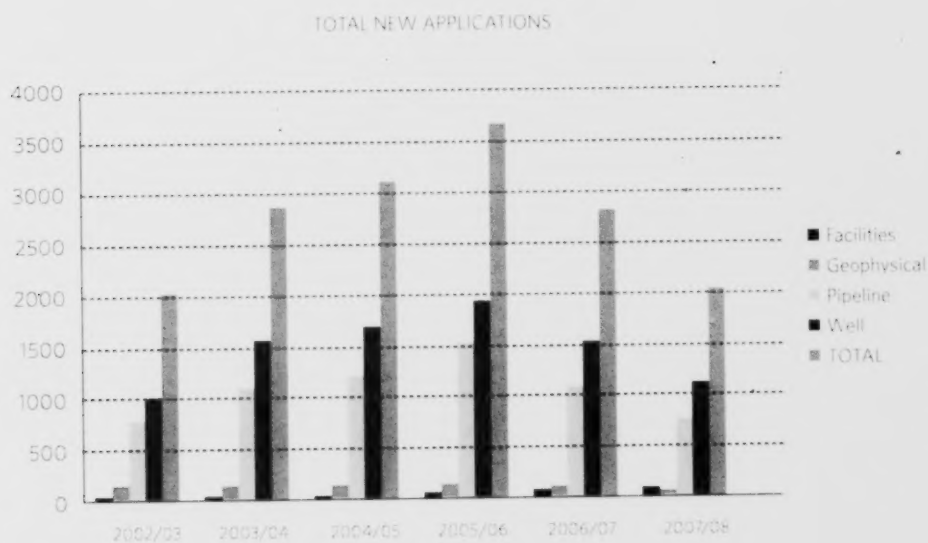
Total applications (new and amended applications) decreased by 27% over last year:

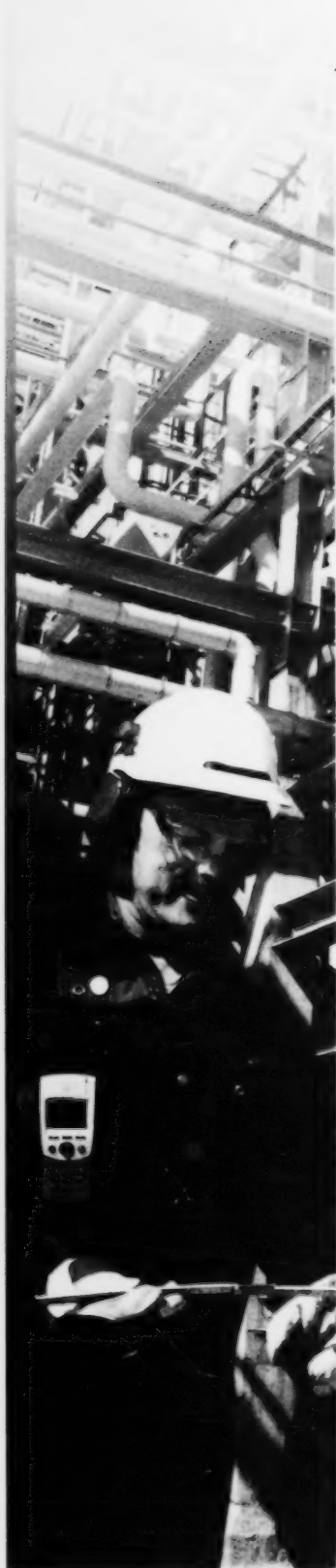
Well applications, the most significant revenue driver, decreased by 28%.



### Total number of new applications only (all activities)

New applications (all activities) decreased by 28% over last year.





### **Data Integrity**

Management has high confidence in the integrity of most operating data. However, some errors and omissions have been identified in pipeline data. A project to correct the errors has been in place for three years and shows marked success in improving data quality. Work continues.

The Commission has an Information Technology Branch that manages the development and maintenance of operating systems. Controls, including data audits, are in place to ensure the integrity of operating data.

### **Management Perspective of the Future**

The Commission has developed a four-year financial plan. The details of the Summary Financial Outlook and assumptions are on the following two pages. The 2008/09-2010/11 Service Plan contains the strategies and measures that indicate the Commission's business objectives for the future, as well as the means to achieve performance targets.

### **Capital Planning**

The Commission has no major capital plans as defined by the *Budget Transparency and Accountability Act* (plans in excess of \$50 million). Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be \$3.2 million over four years.

### **Confidentiality**

This report is complete and contains no confidential information.

## SUMMARY FINANCIAL OUTLOOK (CONSOLIDATED 2006/07 ONWARD)

(\$000)	2006/07 Actual	2007/08 Budget	2007/08 Actual	2008/09 Budget	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
<b>REVENUE</b>							
Fees	14,364	13,900	11,568	13,900	14,355	14,810	15,265
Levies	14,323	13,969	13,727	14,167	14,127	14,071	14,019
Misc.	1,039	1,065	1,057	780	780	780	780
<b>Total Revenues</b>	<b>29,726</b>	<b>28,934</b>	<b>26,352</b>	<b>28,847</b>	<b>29,262</b>	<b>29,661</b>	<b>30,064</b>
<b>EXPENSES</b>							
First Nations	9,065	8,700	7,103	7,830	8,120	8,410	8,700
Salaries/Benefits	11,370	14,424	13,165	14,496	14,858	15,230	15,611
Operating Expenses (incl. Amort.)	6,579	9,543	6,329	9,584	9,872	10,168	10,473
<b>Total Expenses</b>	<b>27,014</b>	<b>32,667</b>	<b>26,597</b>	<b>31,910</b>	<b>32,850</b>	<b>33,808</b>	<b>34,784</b>
<b>Operating Income (Loss)</b>	<b>2,712</b>	<b>(3,733)</b>	<b>(245)</b>	<b>(3,063)</b>	<b>(3,488)</b>	<b>(4,147)</b>	<b>(4,720)</b>
Amortization of Contributed Assets	105	95	105	48	0	0	0
Orphan Sites Reclamation Fund Surplus (Deficit)	911	964	841	104	101	(102)	(105)
<b>Net Income (Loss)</b>	<b>3,728</b>	<b>(2,674)</b>	<b>701</b>	<b>(2,911)</b>	<b>(3,487)</b>	<b>(4,249)</b>	<b>(4,825)</b>
Deficit/Surplus Management Allowance				2,911	3,487	4,249	4,825
<b>ADJUSTED NET INCOME</b>	<b>3,728</b>	<b>(2,674)</b>	<b>701</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Full-time Equivalents	154	154	154	162	162	164	166
Capital Expenditures	1,257	1,382	996	1,990	403	415	428

\*NOTE: Fee/levy increases and/or expenditure decreases and/or use of retained earnings may be necessary to offset any operational deficits arising as a result of variances from forecasted revenues and expenditures.

KEY ASSUMPTIONS	FORECAST RISKS AND SENSITIVITIES
<ul style="list-style-type: none"> <li>• New well applications are 1,350, 1,400, 1,450 and 1,500 starting in 2008/09</li> <li>• Gas volumes are 27.2 x 109 m<sup>3</sup>, 27.3 x 109 m<sup>3</sup>, 27.3 x 109 m<sup>3</sup> and 27.3 x 109 m<sup>3</sup> starting in 2008/09</li> <li>• Oil Volumes are 1.474 x 106 m<sup>3</sup>, 1.395 x 106 m<sup>3</sup>, 1.322 x 106 m<sup>3</sup> and 1.255 x 106 m<sup>3</sup> starting in 2008/09</li> <li>• Gas prices remain in excess of \$5.00 per 1,000 ft<sup>3</sup></li> <li>• Estimated salary increases are 2.5% per annum starting in 2008/09</li> <li>• Inflation estimated at 3% per annum</li> <li>• Reclamation activities projected at four to five well sites per annum at a cost of \$200,000 each starting in 2008/09</li> <li>• Well application fees remain at \$9,100 for "first drill" exploration</li> <li>• Oil levy remains at \$0.94 per cubic metre</li> <li>• Gas levy remains at \$0.47 per 1000 cubic metres</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial price and production fluctuations</li> <li>• Adverse weather conditions</li> <li>• Exploration activity levels (well applications)</li> <li>• Fee/levy increases and/or expenditure decreases and/or use of retained earnings may be required to offset any deficits arising as a result of variances from forecasted revenues and expenditures</li> </ul>

\*Effective May 1, 2007, the well application fee increased to \$9,100 (for first drills and \$8,500 for second drills) and the levies increased to \$0.47 per 1,000 m<sup>3</sup> of gas and \$0.94 per m<sup>3</sup> of oil. The increases, in agreement with the Canadian Association of Petroleum Producers, provided revenue for the Science, Community and Environmental Knowledge Fund (SCEK).

OIL AND GAS COMMISSION  
CONSOLIDATED FINANCIAL  
STATEMENTS

MARCH 31, 2008

## STATEMENT OF MANAGEMENT RESPONSIBILITY

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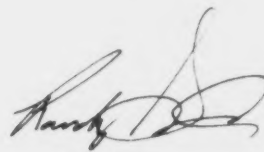
The consolidated financial statements of the Oil and Gas Commission (the Commission) for the year ended March 31, 2008 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. These consolidated financial statements present fairly the financial position of the Commission as at March 31, 2008, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the consolidated financial statements and have established systems of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of the Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Commission.



Alex Ferguson  
COMMISSIONER



Randall Smith  
EXECUTIVE FINANCIAL OFFICER



## Report of the Auditor General of British Columbia

*To the Board of Directors of  
the Oil and Gas Commission, and*

*To the Minister of Energy, Mines and Petroleum Resources,  
Province of British Columbia:*

I have audited the consolidated statement of financial position of *the Oil and Gas Commission* as at March 31, 2008 and the consolidated statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
May 14, 2008*

John Doyle, MBA, CA  
Auditor General

## Consolidated Statement of Financial Position

(in \$000s)

MARCH 31	2008	2007
		Restated Note 2
<b>Assets</b>		
<b>Current assets</b>		
Cash	6,909	7,324
Accounts receivable	4,738	4,502
Due from Province of British Columbia (Note 4)	2,409	2,464
Prepaid expenses	216	135
	<u>14,272</u>	<u>14,425</u>
<b>Orphan Site Reclamation Fund (Note 5)</b>	<b>1,556</b>	<b>737</b>
<b>Property, plant and equipment (Note 6)</b>	<b>3,249</b>	<b>3,175</b>
	<u>19,077</u>	<u>18,337</u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable	1,161	1,467
Wages payable	1,315	780
Due to First Nations	542	496
Due to the Province of British Columbia (Note 4)	359	503
	<u>3,377</u>	<u>3,246</u>
<b>Non-current liabilities</b>		
Future retirement allowance	132	119
<b>Total liabilities</b>	<b>3,509</b>	<b>3,365</b>
<b>Net assets</b>		
Net assets (Note 5)	15,440	14,739
Contributed assets (Note 7)	128	233
	<u>15,568</u>	<u>14,972</u>
	<u>19,077</u>	<u>18,337</u>

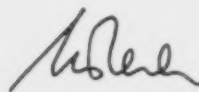
Science and Community Environmental Knowledge (SCEK) Fund (Note 9)

Orphan Site Reclamation (OSRF) Fund (Note 5)

Contingent Liability (Note 11)

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board


Greg Reimer  
BOARD CHAIR

Alex Ferguson  
COMMISSIONER



## Consolidated Statement of Operations and Net Assets

(in \$000s)

MARCH 31	2008	2007
		Restated Note 2
<b>Revenues</b>		
Fees (Note 3)	11,568	14,364
Levies (Note 3)	13,727	14,323
Recoveries from Province (Note 12)	505	772
Miscellaneous	552	267
	<u>26,352</u>	<u>29,726</u>
<b>Expenses</b>		
Salaries and benefits	13,165	11,370
First Nations (Note 13)	7,103	9,065
Professional services and training	1,178	1,690
Travel and vehicle costs	1,495	1,248
Building occupancy	1,253	1,227
Telecommunications and information systems	707	775
Amortization	922	587
Miscellaneous and reserve for doubtful accounts	121	553
Office supplies and equipment	585	492
Grants	68	7
	<u>26,597</u>	<u>27,014</u>
<b>Income (loss) from operations</b>	(245)	2,712
<b>Orphan Site Reclamation Fund (Note 5)</b>	841	911
<b>Amortization of contributed assets (Note 7)</b>	105	105
<b>Net income</b>	<u>701</u>	<u>3,728</u>
<b>Net assets beginning of year - as previously reported</b>	14,853	11,011
Prior Period Adjustment (Note 2(a))	(119)	-
Prior Period Adjustment (Note 2(b))	5	-
<b>Net assets beginning of year - restated</b>	<u>14,739</u>	<u>11,011</u>
<b>Net assets end of year</b>	<u>15,440</u>	<u>14,739</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Operations and Net Assets

(in \$000s)

MARCH 31	2008	2007
		Restated Note 2
<b>Operating activities</b>		
<b>Cash generated from:</b>		
Fees	11,751	15,381
Levies	14,657	14,231
Miscellaneous and recoveries	961	258
	<u>27,369</u>	<u>29,870</u>
<b>Cash used for:</b>		
Payments to First Nations	7,057	10,656
Salaries and benefits	12,485	12,592
Operating expenses	5,988	4,702
	<u>25,530</u>	<u>27,950</u>
<b>Cash from operating activities</b>	<u>1,839</u>	<u>1,920</u>
<b>Investing activities</b>		
<b>Cash used for:</b>		
Purchase of plant and equipment	1,435	1,257
<b>Cash used in investing activities</b>	<u>1,435</u>	<u>1,257</u>
<b>Financing activities</b>		
Cash restricted for Orphan Site Reclamation Fund	819	737
<b>Cash used in financing activities</b>	<u>819</u>	<u>737</u>
<b>Decrease in cash</b>	<u>415</u>	<u>74</u>
<b>Cash beginning of year</b>	<u>7,324</u>	<u>7,398</u>
<b>Cash end of year</b>	<u>6,909</u>	<u>7,324</u>

The accompanying notes are an integral part of these statements.

## Notes to the Consolidated Financial Statements March 31, 2008

(tabular in \$000s)

**1. The Oil and Gas Commission**

The Oil and Gas Commission (the Commission) was established under the *Oil and Gas Commission Act* on July 30, 1998 to regulate industry activity on oil and gas lands and to resolve industry land use and economic issues related to Aboriginal Lands on behalf of the Province of British Columbia. The Commission is also accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia.

The Commission is funded solely through revenue from the consolidated revenue fund of the Province of British Columbia derived from:

- Levies from oil and gas production,
- Fees related to applications for licenses, permits and other authorizations reviewed by the Commission under the *Petroleum and Natural Gas Act*, and
- Annual fees prescribed under the *Petroleum and Natural Gas Act* and the *Pipeline Act*.

The Commission is exempt from federal and provincial income taxes.

**2. Prior Period Adjustments**

- (a) During the year, management identified a liability for Employee Future Retirement Benefits, which should have been recorded in the prior year, fiscal 2007. The adjustment to reflect this liability was applied retrospectively, which decreased net assets and increased Non-Current Wages Payable at March 31, 2007 by \$119,000. It also increased Salaries and Benefits Expense, and decreased Net Income for the year ended March 31, 2007 by \$119,000.
- (b) It was determined subsequent to 2007 that an amount received from the Provincial Government was a contribution towards tenant improvements carried out in the year ended March 31, 2007. The adjustment to reflect this was applied retrospectively, which for the March 31, 2007 year end increased the amount due to the Province of British Columbia by \$100,000, and Property Plant and Equipment by a net amount of \$95,000. It also increased the amount due from the Province of British Columbia by \$100,000, increased Contributed assets by a net amount of \$90,000, and increased Net assets by \$5,000.

**3. Significant Accounting Policies**

The consolidated financial statements of the Commission are prepared in accordance with Canadian Generally Accepted Accounting Principles. Significant accounting policies are as follows:

**Change in Accounting Policy**

Effective April 1, 2007 the Oil and Gas Commission has adopted the new standard announced by the Canadian Institute of Chartered Accountants (CICA): Section 1530 *Comprehensive Income*, Section 3855, *Financial Instruments - Recognition and Measurement*, and Section 3861 - *Disclosure and Presentation*. These accounting policies were adopted on a prospective basis with no restatement of prior period financial statements. The adoption of these new standards did not have any material impact on net income.

Section 1530 *Comprehensive Income* provides guidance in the reporting of comprehensive income and other comprehensive income. Comprehensive income comprises net income and other comprehensive income (OCI). OCI represents changes in shareholder's equity in a period arising from transactions and changes in fair value of available-for-sale securities and the effective portion of cash flow hedging instruments. The Commission did not have any OCI transactions or any opening or closing balances for accumulated other comprehensive income or loss.

## Notes to the Consolidated Financial Statements March 31, 2008

(tabular in \$000s)

**3. Significant Accounting Policies (Continued)**

Section 3855, *Financial Instruments - Recognition and Measurement* establishes new standards for recognizing and measuring financial instruments including financial assets, financial liabilities and non-financial derivatives. Financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans, receivables, and financial liabilities not classified as held-for-trading will be measured at amortized cost.

As of April 1, 2007, the Oil and Gas Commission has designated its Financial Instruments as follows: Cash is classified as held for trading and measured at fair value and all gains and losses are included in net income from operations in the period in which they occur. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payables, wages payable and due to First Nations are classified as other financial liabilities and are also measured at amortized cost.

It is management's opinion that the Oil and Gas Commission is not exposed to significant interest, currency or credit risk arising from these instruments.

**Future Accounting Changes**

In December 2006, the CICA issued the following accounting changes that will be relevant to the Oil and Gas Commission's financial statements effective April 1, 2008:

Section 3862 of the CICA handbook (*Financial Instrument - Disclosures*) and Section 3863 (*Financial Instruments - Presentation*), which will revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The new disclosure will provide additional information on the nature and extent of risk arising from financial instruments and how the Commission manages those risks.

**Consolidation**

The accounts of the Oil and Gas Commission and the Orphan Site Reclamation Fund have been consolidated in these financial statements. The Commission administers and controls the Orphan Site Reclamation Fund and all inter company balances and transactions have been eliminated.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

• Furniture, equipment and tenant improvements	10 per cent
• Operating equipment	20 per cent
• Automotive equipment	25 per cent
• Computer hardware	33 per cent
• Computer software	33 per cent

For 2008, the amortization rate on computer software was changed from 100% to 33%. One half of the amortization rate is applied to the year in which an asset is acquired.

An amount approximating amortization associated with capital assets originally paid for by the Province of British Columbia is transferred from contributed assets to revenue each year. See note 7.

## Notes to the Consolidated Financial Statements March 31, 2008

(tabular in \$000s)

**Revenue Recognition**

All fee and levy revenue authorized and collected under Section 23 of the *Oil and Gas Commission Act* is first paid to the Minister of Finance. The Province then transfers this amount of revenue to the Commission in full. Revenue is recognized when it is earned. The Oil and Gas Levy is assessed in the third month following production; therefore, revenue for January, February and March is estimated based on an analysis that takes into account both historical and current year trends. Fees under the *Pipeline Act* for pipelines are recognized when earned, that is, when pipeline construction "leave to open" has been granted.

**Use of Estimates**

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

**4. Due from/to the Province of British Columbia**

	2008	2007
<b>Due from:</b>		
Fee and levies	1,712	2,246
Contract reimbursement	374	218
Orphan site reimbursement	323	-
	<u>2,409</u>	<u>2,464</u>
<b>Due to:</b>		
Operating expenses	359	153
Capital costs	-	350
	<u>359</u>	<u>503</u>

**5. Orphan Site Reclamation Fund**

The Oil and Gas Commission administers an Orphan Site Reclamation Fund (OSRF). It was created on April 1, 2006 as a means to pay for reclamation of orphan sites and for related costs. There are 39 known orphan sites in the Province.

At March 31, 2008, the Commission held \$1,556,000 in Cash (2007: \$737,000) which is restricted for use by the OSRF and was therefore not available for general use of the Commission. Net Assets accumulated by the OSRF at March 31, 2008 totaled \$1,899,000 (2007: \$1,058,000).

Operations of the OSRF are summarized as follows:

	2008	2007
<b>Revenue</b>		
Levies	893	922
Recoveries from Province	248	-
Miscellaneous	48	-
<b>Total Revenue</b>	<u>1,189</u>	<u>922</u>
<b>Expenses</b>		
Salaries and Benefits	-	11
Reclamation Expenses	348	-
<b>Total Expenses</b>	<u>348</u>	<u>11</u>
<b>Net Income - Orphan Sites Reclamation Fund</b>	<u>841</u>	<u>911</u>

## Notes to the Consolidated Financial Statements March 31, 2008

(tabular in \$000s)

## 6. Property, Plant and Equipment

	2008		2007 (Restated)
	Cost	Accumulated Amortization	Net book value
Furniture and tenant improvements	2,996	(1,817)	1,179
IT migration project	1,926	(321)	1,605
Computer hardware	970	(788)	182
Automotive equipment	368	(241)	127
Operating equipment	161	(83)	78
Computer software	588	(567)	21
Land	57	-	57
	7,066	(3,817)	3,249

## 7. Contributed Assets and Forgiveness of Start-up Costs

During its first year of operation (fiscal 1999) the Commission borrowed funds from the Province to finance its purchase of start-up capital and pay for start-up professional contracts. The total of all of these amounts was \$1.62 million.

During fiscal 2001 the Province forgave this amount and the amount equal to the capital assets. They were recognized as a contributed asset.

Contributed assets are amortized each year in an amount approximating amortization of capital assets; this amount is transferred to revenue.

	2008	2007 (Restated)
Contributed assets beginning of year	233	238
Additional Contributions - Tenant Improvements	-	100
Amortization of Contributed Assets	(105)	(105)
Contributed assets end of year	128	233

## 8. Commitments

The Commission occupies leased office buildings and storage space in Fort St. John, Fort Nelson, Kamloops, and Victoria and has entered into a number of short-term leases and support agreements for vehicles, office equipment, and software development and licensing.

The Commission's total fiscal year commitments are:

Fiscal Year	Contracts	First Nations	Total
2008/09	2,659	880	3,539
2009/10	990	880	1,870
1010/11	921	880	1,801
2011/12	891	765	1,656
2012/13	862	420	1,282
	6,323	3,825	10,148

**Notes to the Consolidated Financial Statements March 31, 2008**

(tabular in \$000s)

**8. Commitments (Continued)**

As well, the Commission has signed Consultation Agreements with a number of First Nations communities, which commits the commission to minimum payments as above, and further amounts based on the number of Well Applications received by the Commission. Estimated payments for fiscal 2009 are \$7.3 million (fiscal 2010 - \$7.6 million; fiscal 2011 - \$7.9 million).

**9. Science and Community Environmental Knowledge (SCEK) Fund**

The Commission administers this fund on behalf of the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC). Separate audited financial statements are available.

**10. Employee Benefit Plans and Future Liability****Employees' Benefits Plan**

The Commission and its employees contribute to the Public Service Pension Plan (the Plan). The Public Service Pension Board of Trustees, representing plan members and employers is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a defined benefit multi-employer contributory pension plan.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of \$767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. Contributions to the Plan by the Commission for 2008 were \$868,234 (2007: \$408,058).

**Accrued Employee Leave Entitlements**

As of March 31, 2008, the value of employee entitlements to vacation, other leave and compensatory time off, plus related benefits, in accordance with collective agreements and terms of employment was \$527,130 (2007: \$284,346).

**Employee Future Retirement Allowance Liability**

The Commission accrues for future retirement allowances as provided under the collective agreements and terms of employment. The discounted value, net of recoveries, of this obligation is \$141,932 of which \$9,479 is included in wages payable as a current liability.

**11. Contingent Liability****Litigation and Claims**

The Commission is contingently liable with respect to pending litigation and claims in the normal course of business. In the opinion of management, any liability that may arise would not have a material effect on the Commission's consolidated financial position or results of operations.

**12. Related Party Transactions**

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The consolidated financial statements include the following related party transactions:



## Notes to the Consolidated Financial Statements March 31, 2008

(tabular in \$000s)

## 12. Related Party Transactions (Continued)

	2008	2007
<b>Revenues from the province</b>		
Oil and Gas Regulatory Improvement Initiative (OGRII)	-	400
Contract reimbursement	666	204
Salary costs	139	168
Interest	318	249
	<b>1,123</b>	<b>1,021</b>
<b>Expenses</b>		
Salary Costs	221	-
Building occupancy	1,165	1,227
Professional services and training	256	349
Telecommunications and info systems	141	250
Travel and vehicle costs	335	215
Office supplies and equipment	63	110
	<b>2,181</b>	<b>2,151</b>
<b>Assets</b>		
Tenant improvements	-	391

## 13. First Nations Payments

The Commission has entered into Agreements or Memorandums of Understanding (MOUs) with the following First Nations. During the life of the MOUs and Agreements, each First Nation will receive payments based on current well activities. These payments are for consultation services on applications as required by the *Oil and Gas Commission Act*.

Payments to:	Agreements Expire	2008	2007
Blueberry River First Nations	March 31, 2020	788	1,070
Doig River First Nations	March 31, 2011	788	1,070
Dene Tha' First Nations	Sept 30, 2011	460	450
Fort Nelson First Nations	March 31, 2011	788	1,070
Halfway River First Nations	March 31, 2011	788	1,070
McLeod Lake Indian Band	April 30, 2011	1,011	1,074
Prophet River First Nations	March 31, 2011	788	1,070
Saulteau First Nations	March 31, 2011	828	1,086
West Moberly First Nations	March 31, 2011	853	1,099
Ktunaxa First Nation	March 31, 2008	11	6
		<b>7,103</b>	<b>9,065</b>

## 14. Comparative Figures

Certain of the comparative figures have been restated to conform to the presentations used in the current year.

SCIENCE AND COMMUNITY  
ENVIRONMENTAL KNOWLEDGE FUND  
**FINANCIAL STATEMENTS**

MARCH 31, 2008

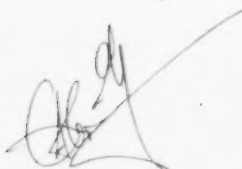
## STATEMENT OF MANAGEMENT RESPONSIBILITY

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The financial statements of the Science and Community Environmental Knowledge Fund for the year ended March 31, 2008 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. These financial statements present fairly the financial position of the Fund as at March 31, 2008, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the financial statements and have established systems of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the Science and Community Environmental Knowledge Fund. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Fund.



Alex Ferguson  
COMMISSIONER



Randall Smith  
EXECUTIVE FINANCIAL OFFICER



## Report of the Auditor General of British Columbia

*To the Board of Directors of  
the Oil and Gas Commission:*

I have audited the statement of financial position of the *Science and Community Environmental Knowledge Fund* as at March 31, 2008 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Science and Community Environmental Knowledge Fund* as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
May 14, 2008*

John Doyle, MBA, CA  
Auditor General

# Statement of Financial Position

(in \$000s)

MARCH 31	2008	2007
		Restated Note 2
<b>Assets</b>		
<b>Current Assets</b>		
Cash	1,611	1,326
Accounts receivable	4	4
Due from the Oil and Gas Commission (Note 4)	217	-
Prepaid expenses (Note 2)	-	20
	<u>1,832</u>	<u>1,350</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	218	121
Holdbacks	81	17
Due to the Oil and Gas Commission (Note 4)	8	41
	<u>307</u>	<u>179</u>
<b>Net Assets (Note 2)</b>	<u>1,525</u>	<u>1,171</u>
	<u>1,832</u>	<u>1,350</u>

## Commitments (see Note 5)

The accompanying notes are an integral part of these statements.

On behalf of the Science and Community Environmental Knowledge Fund



Alex Ferguson  
COMMISSIONER

## Statement of Operations and Net Assets

(in \$000s)

MARCH 31	2008	2007
		Restated Note 2
<b>Revenues</b>		
Fees and Levies	759	-
Interest	49	48
	<u>808</u>	<u>48</u>
<b>Expenses</b>		
Project costs (Note 2)	421	331
Salaries and benefits	28	105
Travel and administrative	5	11
Professional services and training	-	4
	<u>454</u>	<u>451</u>
<b>Net Income (Loss) from operations</b>	<u>354</u>	<u>(403)</u>
<b>Net Assets beginning of year - as previously reported</b>	1,342	1,682
Prior Period Adjustment (Note 2)	(171)	(108)
<b>Net Assets beginning of year - restated</b>	<u>1,171</u>	<u>1,574</u>
<b>Net Assets end of year</b>	<u>1,525</u>	<u>1,171</u>

The accompanying notes are an integral part of these statements.

## Statement of Cash Flow

(in \$000s)

MARCH 31	2008	2007
		Restated Note 2
<b>Operating Activities</b>		
<b>Cash generated from:</b>		
Fees and Levies	556	-
Recovery from the Commission	-	14
Interest	49	48
	<u>605</u>	<u>62</u>
<b>Cash used for:</b>		
Projects	240	102
Fund administration	80	93
	<u>320</u>	<u>195</u>
<b>Cash from (used in) operating activities</b>	<b>285</b>	<b>(133)</b>
<b>Cash beginning of year</b>	<b>1,326</b>	<b>1,459</b>
<b>Cash end of year</b>	<b><u>1,611</u></b>	<b><u>1,326</u></b>

The accompanying notes are an integral part of these statements.



**Notes to Financial Statements March 31, 2008**

(tabular in \$000s)

**1. The Oil and Gas Commission as Agent and Administrator**

In 1998, the Government of British Columbia entered into an agreement with the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC) to establish the Environment Fund ('the Fund'). The Fund was allocated \$5 million over five years to support studies concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia. Findings of completed studies are incorporated, where appropriate, into environmental practice and regulation.

In 2002 CAPP and SEPAC restated their support of the Fund for five years. At that time, they agreed to refocus and rename the Fund. The Fund changed from a purely 'research-based', 'environment' fund to a broader based fund which incorporates 'science' and 'community environmental knowledge'. The Environment Fund was renamed the Science and Community Environmental Knowledge Fund ('SCEK Fund' or 'the Fund').

The Oil and Gas Commission agreed that the administration of the Fund would be part of its mandate. Funding is generated through a portion of the levy on oil and gas production and a portion of the application fee for wells. This money is restricted for use for projects and administration of the Fund. The objectives of the Fund are:

- To provide credible findings from scientific and knowledge based research that are useful to Commission and industry decision-making;
- To improve scientific and community environmental knowledge relevant to the management of oil and gas activities in British Columbia; and
- To communicate this information in a format suitable for Industry, Regulators, First Nations, Stakeholders and the General Public.

**2. Prior Period Adjustment**

It was determined subsequent to 2007 that the amount previously recorded as Prepaid expenses was overstated. The adjustment to reflect this was applied retrospectively, which for the March 31, 2007 year end decreased Prepaid expenses and Net Assets by \$171,000; Project Costs and Net Loss from Operations each increased by \$63,000 and Net Assets at the beginning of fiscal 2007 decreased by \$108,000.

**3. Significant Accounting Policies**

The financial Statements of the SCEK Fund are prepared in accordance with Canadian Generally Accepted Accounting Principles. Significant accounting policies are as follows:

**Prepaid Expenses**

Funding which is paid in advance is accounted for as a prepaid expense. It is recognized as an expense upon completion of the agreement and or acceptance of the specified deliverables.

**Revenue Recognition**

Fee and levy revenue is recognized when assessed.

**Project Fund Expenditures**

Interim project expenses are recognized based on the terms of the agreement. In general, this occurs when interim deliverables are met. Final project expenses are recognized when the final statement of project expenditures and the final deliverables have been received.

## Notes to Financial Statements March 31, 2008

(tabular in \$000s)

**3. Significant Accounting Policies (Continued)****Holdbacks**

Holdbacks consist of a portion of a contractor's invoice value being held by the Fund until receipt and acceptance of the final report. The holdbacks are paid after review and approval of the report.

**Use of Estimates**

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

**Change in Accounting Policy**

Effective April 1, 2007 the SCEK Fund has adopted the new standard announced by the Canadian Institute of Chartered Accountants (CICA): Section 1530 *Comprehensive Income*, Section 3855, *Financial Instruments - Recognition and Measurement*, and Section 3861 *Disclosure and Presentation*. These accounting policies were adopted on a prospective basis with no restatement of prior period financial statements. The adoption of these new standards did not have any material impact on net income.

Section 1530 *Comprehensive Income* provides guidance in the reporting of comprehensive income and other comprehensive income. Comprehensive income comprises net income and other comprehensive income (OCI). OCI represents changes in net assets in a period arising from transactions and changes in fair value of available-for-sale securities and the effective portion of cash flow hedging instruments. The Fund did not have any OCI transactions or any opening or closing balances for accumulated other comprehensive income or loss.

Section 3855 *Financial Instruments - Recognition and Measurement* establishes new standards for recognizing and measuring financial instruments including financial assets, financial liabilities and non-financial derivatives. Financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost.

As of April 1, 2007, the SCEK Fund has designated its Financial Instruments as follows: Cash is classified as held for trading and measured at fair value and all gains and losses are included in net income from operations in the period in which they occur. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payables are classified as other financial liabilities and are also measured at amortized cost.

It is management's opinion that the SCEK Fund is not exposed to significant interest, currency or credit risk arising from these instruments.

**Future Accounting Changes**

In December 2006, the CICA issued the following accounting changes that will be relevant to SCEK Fund's financial statements effective April 1, 2008:

Section 3862 of the CICA handbook (Financial Instrument - Disclosures) and Section 3863 (Financial Instruments - Presentation), which will revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The new disclosure will provide additional information on the nature and extent of risk arising from financial instruments and how the Fund manages those risks.

**Notes to Financial Statements March 31, 2008**

(tabular in \$000s)

**4. Due from/to the Oil and Gas Commission**

The amount due from the Commission represents a recovery of non-direct salary costs previously paid to the Commission. The amount due to the Commission represents direct salary costs owed to the Oil and Gas Commission for employees who did work for the Fund during fiscal 2008.

**5. Commitments**

The SCEK Fund has entered into several long term agreements. Funds for these agreements are committed when the selection committee approves the project and the agreement is signed. The Fund's total fiscal year commitments are:

Fiscal Year	Amount
2009	270
2010	175

**6. Revenues**

On April 28, 2004, an Order in Council eliminated the incremental oil and gas levies and well fees that the SCEK Fund collected.

On May 1, 2007, per an Order in Council, the fee payable to the Oil and Gas Commission for well applications increased by \$400 per well (to \$9,100 for 1st drill and to \$8,500 for 2nd drill). Levies increased by \$0.02 per cubic meter of oil produced (to \$0.94) and by \$0.01 per one thousand cubic meters of gas produced (to \$0.47). From this increase, and in agreement with the Canadian Association of Petroleum Producers (CAPP), a budget for SCEK project expenditures was reinstated for fiscal 2008.

Due to timing for Government invoicing and subsequent processing of the fees and levies, there is typically a four-month lag between realization of the revenue (income) and deposit into the general operating account of the Commission (cash position). Because revenue is collected on behalf of the fund through the Ministry of Small Business and Revenue based on production volumes of the three months proceeding, the fund recognized thirteen months of levy revenue in fiscal 2008.

**7. Contributed Services**

The Oil and Gas Commission contributes services to the Fund, consisting of accommodation and administrative services.

## APPENDIX 1: CHANGES TO GOALS AND MEASURES

2007/08 SERVICE PLAN	2008/09 SERVICE PLAN	COMMENTS
<b>GOAL 1:</b> We will continually improve public safety, protection of the environment, and conservation of petroleum resources.	<b>GOAL 1:</b> The OGC protects the interests of the people of British Columbia	This change provides clarity about the public purpose served by the OGC and combines the intent of public safety, environmental protection and conservation. The new goal also identifies the people of British Columbia as the beneficiaries of services provided by the OGC.
<b>MEASURES:</b> <ul style="list-style-type: none"> <li>• Major compliance - exploration and development</li> <li>• Major compliance - facility, operations</li> <li>• Number of inspections</li> </ul>	<b>MEASURES:</b> <ul style="list-style-type: none"> <li>• Major compliance - exploration and development</li> <li>• Major compliance - facility, operations</li> </ul>	The 'Number of inspections' measure has been removed as the OGC has introduced a measure to more accurately reflect the quality of inspections. The OGC has employed an OSI model that focuses inspections on high priority operations.
<b>GOAL 2:</b> We will make timely and informed decisions based on the input we receive.	The OGC makes quality decisions in a timely manner.	The new goal focuses on quality decisions. The current goal states that we will only make decisions based on the input we receive. This is now a more proactive goal.
<b>MEASURE:</b> <ul style="list-style-type: none"> <li>• Average number of calendar days to assess new applications</li> </ul>	<b>MEASURES:</b> <ul style="list-style-type: none"> <li>• Calendar days to process new applications</li> <li>• Internal processes conforming to specified quality assurance criteria</li> </ul>	Quality assurance processes are designed to support our continual improvement initiatives through regular review and follow-up improvements. The internal quality audits allow the OGC to focus resources on necessary process design, as well as to continually adapt to a dynamic operating environment.
<b>GOAL 3:</b> We will strengthen our relationships with stakeholders, First Nations and clients.	The OGC is recognized as a service-oriented organization.	Quality service is about more than building relationships. It is also about building respect and credibility. The OGC has moved towards a more inclusive definition of client.
<b>MEASURES:</b> <ul style="list-style-type: none"> <li>• Percentage of applications responded to by First Nations</li> <li>• Client satisfaction among all surveyed</li> </ul>	<b>MEASURES:</b> <ul style="list-style-type: none"> <li>• Percentage of applications responded to by First Nations</li> <li>• Client satisfaction among all surveyed</li> <li>• Number of community awareness meetings conducted in the Peace Region</li> </ul>	Fiscal year 2006/07 saw the introduction of a rural outreach initiative aimed at conveying the various roles and services of the OGC to local landowners and other interested community members. This pilot initiative was successfully conducted through 10 public meetings capturing 39 rural communities in the Peace Region.

2007/08 SERVICE PLAN	2008/09 SERVICE PLAN	COMMENTS
Goal 4: We will participate in modernizing the OGC's legislative and regulatory framework.	The OGC continually improves the regulatory environment.	The revised goal highlights the OGC's role in activities that improve the operating environment proactively through guiding regulations and legislation.
<b>MEASURE:</b> <ul style="list-style-type: none"> <li>Number of agencies that industry clients must work with on oil and gas applications</li> </ul>	<b>MEASURES:</b> <ul style="list-style-type: none"> <li>Number of updated MOUs or working agreements with partner agencies</li> <li>Number of new MOUs or working agreements with partner agencies</li> <li>Client satisfaction (among OGC partners with MOUs)</li> </ul>	<p>The OGC maintains a number of working agreements and MOUs that support and define the relationship and delegated authorities with partner agencies.</p> <p>The agreements support OGC authority with respect to upholding the values associated with the partner agencies' mandates.</p> <p>The new measure indicates quality of interaction perceived by partner agencies through implementation of the legislative and regulatory framework.</p>
GOAL 5: We will provide a personal-best performance environment for employees.	The OGC is a great place to work.	The new goal helps the OGC to work on a wider suite of objectives and strategies to more positively affect the measures.
<b>MEASURES:</b> <ul style="list-style-type: none"> <li>Percentage of employees with a performance plan and evaluation in place.</li> <li>Voluntary turnover rate of regular staff.</li> <li>Budgeted investment in training per employee</li> </ul>	<b>MEASURES:</b> <ul style="list-style-type: none"> <li>Percentage of employees with a development plan in place</li> <li>Voluntary turnover rate of regular staff</li> <li>Percentage of employees who respond to internal employee engagement survey</li> </ul>	The revised measures track the outcome of employee development rather than simply the amount of money spent.

## CONTACT INFORMATION

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